LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 245** SLS 09RS 604
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ HSE COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date:	June 21, 2009 1:02 PM	**Author:**	ADLEY
Dept./Agy.:	Economic Development		
Subject:	Film Production Tax Credit	**Analyst:**	Greg Albrecht

TAX/TAXATION RE1 -$10,000,000 GF RV See Note

Increases the transferable motion picture investor tax credit for movie productions certified on and after July 1, 2009 to 30%. (7/1/09)

Current law provides transferable tax credits of 25% of eligible in-state spending by film production companies (referred to as investor credits). An additional 10% is allowed for resident payroll expenses. The investor credit is 25% for certified productions approved before July 1, 2010; then 20% for productions approved between July 1, 2010 and before July 1, 2012; then 15% for productions approved after July 1, 2012.

Proposed law increases the current 25% investor credit to 30% for productions approved on or after July 1, 2009, and eliminates the phase-down provisions. The additional 10% credit for resident payroll is reduced to 5%. Productions are given the option to redeem tax credits directly from the state at 85% of face value. Requires program participants to submit a statement agreeing to pay all undisputed obligations incurred in the state. Makes various changes to program definitions. A state brand or logo may be required of productions in order to receive program benefits. Effective upon governor's signature.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	($10,000,000)	($20,000,000)	($30,000,000)	($40,000,000)	**($100,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**($10,000,000)**	**($20,000,000)**	**($30,000,000)**	**($40,000,000)**	**($100,000,000)**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

For the past two fiscal years (FY07 & FY08) investor credits realized against state tax liabilities averaged $100.8 million per year, reflecting the current 25% credit rate, and this amount of program credit cost is anticipated in FY10. However, a smaller annual loss of state tax collections associated with that scheduled phase-down is already anticipated in the official revenue forecasts for FY11 and beyond. This bill eliminates the scheduled phase-down of the investor credit rate and this phase-down savings to total program costs will be added back to expected annual program credit realizations (FY11 $10 million, FY12 $20 million, FY13 $30 million, FY14 and and each year beyond $40 million).

In addition, the bill increases the investor credit rate to 30% beginning July 1, 2009, and state tax revenue losses could increase by some $20 million per year on this basis alone. For the past two fiscal years (FY07 & FY08) employment credits realized against state tax liabilities averaged $4.2 million per year, reflecting the current 10% additional credit rate applicable to resident payroll. Also under this bill, beginning FY10, that credit rate would decrease to 5%, and state tax losses would decrease by some $2.1 million per year, beginning July 1, 2009. The net effect of these three changes (eliminate the scheduled investor credit phase-down, increase the investor credit to 30%, and cut the employment credit to 5%) is to generate total gross program credit costs of approximately $118 million per year.

Finally, the bill allows production companies the option to redeem credits they receive directly from the state for 85% of face value. Should all production companies utilize this option, total net program costs in FY10 would be nearly $100 million, essentially revenue neutral relative to what is currently expected. However, since the scheduled phase-down of the investor credit is already incorporated into the revenue forecasts for all subsequent fiscal years, the bill's changes generate a new higher total program cost that must be compared to a declining expected total program cost. Thus, even though the bill's changes are essentially revenue neutral in the first fiscal year (FY10), they still result in greater program credit costs in subsequent fiscal years. Also, note that the revenue neutral result in FY10 (and the size of the net credit costs in subsequent years relies on all production companies utilizing the state 85% redemption rate. The bill provides this as an option and not a mandate. To the extent production companies continue to transfer credits under existing practices, the bill will result in net additional credit costs in FY10 and higher credit costs in subsequent years than depicted in the table above. See page 2.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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CONTINUED EXPLANATION from page one:

Scheduled investor credit rate phase-down effect on expected program cost baseline: Under current law, productions approved after July 1, 2010 would generate credits at a 20% credit rate. Assuming a $100 million per year credit baseline, at the earliest, FY11 is when current law is expected to reduce program tax credit costs. At most credits would be $20 million less in FY11 and a like amount in FY12. After that, from FY13 and subsequent years credit costs would be reduced again by another $20 million ($40 million total annual drop from the current credit baseline). However, it is likely that a large number of projects will apply for approval at the higher current credit rates as the dates for phasing down the credit approach (observed as the date approached for changing from total spending to in-state spending as the basis of generating credits in an earlier revision of the program). In addition, it appears to take roughly two years on average for issuance of a credit to realization of the credit against tax liabilities. Thus, it seems likely that the current law scheduled credit phase-down will reduce credit realizations by no more than $10 million in FY11, then $20 million in FY12, then $30 million in FY13, and $40 million in FY14 and each year beyond. These are the amounts that would be added back to annual program credit realizations if the scheduled phase-down of the investor credit were eliminated.

Note: The fiscal note essentially assumes that the current baseline of production activity, credit issuance, and credit realizations will continue even as the current law scheduled credit phase-down occurs. In light of the mobile nature of production activity, the competitive subsidies offered in other states, and the national/global recession's effects on credit availability and industry activity in general, it is reasonable to question whether that level of baseline activity will continue. If it does not, there would be a smaller amount of credit reduction to occur under current law and a smaller amount of credit increase for this bill to add back. However, it is also reasonable to consider that Louisiana has developed considerable expertise, skill sets, and infrastructure geared to supporting the film production industry, even with a lower credit subsidy offered. These factors may be advantageous enough to maintain much of the existing baseline activity level.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
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